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INDEPENDENT FINANCIAL ADVICE

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WEALTH **KNOWLEDGE**

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In this month's Wealth Knowledge newsletter...
Retirees spend almost a third of their income on direct and indirect taxes. There is a gap of more than £30,000 between the average life insurance policy payout and average mortgage debt. Despite the introduction of greater pension flexibility in April 2015, pension savers plan to take just over a quarter of their pension pot as a cash lump sum. And, a third of workers are not eligible for company sick pay.

Retired households face higher tax bills

Retired households face an average annual tax bill of £6,500, research by Prudential has found.

Analysis of Office for National Statistics (ONS) data reveals that the average retired household paid £3,900 in indirect taxes and £2,600 in direct taxes in the 2012/13 tax year. Indirect taxes include VAT and sales duties while direct taxes encompass income tax and council tax.

The ONS figures show that although the annual income of the average retired household rose by £500 in 2012/13 year-on-year, pensioners still paid 30% of their income in taxes.

In the 2012/13 tax year:

- indirect taxes made up 60.2% of the average retired household's tax bill
- VAT was the biggest tax item, accounting for 8.2% of the average income
- income tax made up 7.4% of the average income.

Stan Russell, retirement income expert at Prudential, said the survey is a "stark reminder" that retirees will not be able to spend all of their retirement income as they like.

Pension freedoms to increase tax revenue

The Treasury estimates that the April 2015 pension freedoms could lead to an increase in tax revenue of £320 million during the 2015/16 tax year, increasing to £1.22 billion by 2018/19.

It is now easier for over-55s to access their defined contribution pension savings which could expose them to tax at their marginal rate. Prudential said that this further underscores the need for effective tax planning in retirement.

We can help you to minimise your tax liability in retirement. Contact us today.

Under-insurance poses risk to home owners

Life insurance policies do not provide enough cover to households with mortgages, industry data has suggested.

Insurance provider SunLife's analysis of figures from the Association of British Insurers, the Bank of England and the British Bankers' Association reveals a 'protection gap' between average life insurance payouts and average mortgage debt.

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The average outstanding mortgage debt is £83,000 while the average life insurance payout is £51,500. The gap between life insurance cover and new mortgages is even greater. The average new mortgage is £167,000 so a payout of £51,500 means a shortfall of £115,500.

Commenting on the analysis, Dean Lamble, managing director at SunLife, said:

"People are treating life insurance like a type of mortgage protection. Of course, if for example the breadwinner in a family was to die, being able to pay off the mortgage would be a big help. But, while that would take a significant burden off the family, it wouldn't leave any money to pay the ongoing household bills, provide an income or mean the everyday things could carry on."

Talk to us about arranging life insurance.

Savers think twice about pension freedoms

Retirement savers plan to withdraw an average 27% of their pension as cash under the new freedoms, according to research by Partnership.

The survey of pension savers aged 40-65 found that on average people plan to withdraw marginally more than the 25% tax-free limit in cash.

The 51-55 age group are most likely to withdraw more than half of their pension in cash (18%) while people aged between 56 and 60 are most likely to take the whole pot in cash (9%). The 46-50 age group intend to take the largest proportion in cash (31%).

Of those who intend to take part of their pots as cash:

- 45% will keep it in a bank account
- 31% will use the cash for debt repayments
- 18% want to spend it on a holiday and 16% intend to buy a new car.

Andrew Megson, managing director of retirement at Partnership, said:

"While some have predicted a dash for cash following the introduction of the pension freedoms, most people appear to be intending to take only marginally more than they might have before.

"It appears that while people are keen on the idea of more pension freedom, they are still relatively prudent in their approach to spending their pots."

Pension freedoms – at a cost

Although almost half (45%) of the survey respondents believe that people should be allowed to spend their savings as they please, many did not agree:

- 34% said that people who are frivolous with their savings should not be able to rely on state support
- 18% think that only retirees and people with medical conditions should be allowed to withdraw cash when they turn 55.

Talk to us about your options in retirement.

Company sick pay not available to a third

More than third of UK workers are not entitled to company sick pay, according to a survey by LV=.

The research shows that 34% of workers are without an employer's sickness cover due to a rise in the number of self-employed people and zero-hours contracts.

Of all UK workers:

- 9% are self-employed
- 25% work for a company and would receive statutory sick pay of £88.45 a week if they became ill.

Myles Rix, managing director of protection at LV=, said:

"The UK economy is changing, with zero-hours contracts, freelancing, contract work, and self-employment all becoming more common. As a result, fewer workers now qualify for company sick pay, meaning they could struggle to meet their financial commitments if suddenly unable to earn a salary due to accident or illness."

Sick pay for the self-employed

Normally, when employees are sick for more than 3 days they become eligible for statutory sick pay. This is paid by the government and given to the employee by the employer. But what happens if you're self-employed?

Although self-employed people are not eligible to claim SSP, the government still provides support to those who get sick. This is known as the Employment and Support Allowance (ESA). The amount you'll receive will depend on your age and national insurance contributions.

Contact us for help with claiming sick pay and purchasing income protection insurance.